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**State Auditor Vaudt Reviews House Republicans'  
Fiscal Year 2006 Budget Proposal  
Comparison to Governor's Proposal; Some Unsound Financial Practices Continued;  
Some Steps in Right Direction**

(Des Moines, Iowa) – Continuing in his role as the “Taxpayers’ Watchdog” and in his duty to report directly to the people of Iowa on the condition of the State’s finances, State Auditor David A. Vaudt has completed his review of the House Republicans’ proposed Fiscal Year 2006 budget. Some of his findings include—

**Comparison to Governor’s Proposal**

Total spending for General Fund services on an apples-to-apples comparison reaches \$5,219.9 million under the House Republicans’ proposal, which is approximately \$180 million or 3.3% less than the Governor’s \$5,399.4 million spending proposal. “The House Republicans’ proposed level of spending equates to a 5.1% increase over Fiscal Year 2005, which compares to an 8.7% increase proposed by the Governor,” noted Auditor Vaudt.

**Some Unsound Financial Practices Continued**

Despite some positive steps taken by the House, this Fiscal Year 2006 budget proposal—just like the Governor’s budget proposal—carries forward some of the same unsound financial practices of prior years.

***Lack of Clarity*** – “Meaningful spending comparisons are critical to making truly informed budgeting decisions,” stressed Auditor Vaudt. While the House Republicans’ budget purports to spend \$4,827.8 million, it does not take into account shifted expenditures, salary and benefit increases, and Medicaid supplements. With these added in, the House Republicans’ “true total expenditures” grow to \$5,219.9 million.

***Spending Exceeds Revenues*** – The House Republicans’ proposal continues to tap other funds and special accounts, including the Cash Reserve Fund, to balance the budget. The spending gap—expenditures in excess of revenues—is more than \$300 million in this budget proposal. Auditor Vaudt emphasized, “The key to responsible budgeting is to bring expenditures in line with revenues. This plan fails to achieve that balance.”

### Some Steps in the Right Direction

“Unlike the Governor’s proposal, the House Republicans’ budget proposal does not tap the larger-than-expected Fiscal Year 2005 surplus to pay for Fiscal Year 2006 program costs,” said Auditor Vaudt. This promotes budget clarity by appropriately segregating Fiscal Year 2005 appropriations from 2006 appropriations. Plus, the smaller Fiscal Year 2005 supplemental spending appropriation proposed by House Republicans provides two additional benefits. First, it better controls the spending base going into Fiscal Year 2006. Second, any surplus from Fiscal Year 2005 goes to repay and help rebuild the Cash Reserve Fund.

“The House Republicans’ plan also takes a positive step toward replenishing the Senior Living Trust Fund,” said Auditor Vaudt, noting the House Republican budget proposal also appropriates \$55.6 million for repayment to the Senior Living Trust Fund in Fiscal Year 2006.

Auditor Vaudt also complimented leaders of both parties in the House on their efforts to address repayment of other funds. “It is encouraging to see House Republican leadership and a group comprised of both Democrat and Republican House legislators submit proposals addressing repayment of monies taken from other funds,” commented Auditor Vaudt. “While the plans are dramatically different, the key is these House members were willing to take the bold step that opens the discussion about repayment plans. I applaud these House legislators, both Republican and Democrat, for initiating the dialogue on this important aspect of Iowa’s financial affairs. At last, the silence on repayment has been lifted.”

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# Auditor of State David A. Vaudt

Comments on  
House Republicans'  
Fiscal Year 2006 Budget Recommendations

March 28, 2005  
Press Briefing

## State of Iowa General Fund Budget Concerns

Comments today will focus on three primary areas:

- ◆ Comparison of House Republicans' and Governor's spending proposals - "True Total Expenditures"
- ◆ Concerns about House Republicans' budget proposal - some unsound financial practices continued
- ◆ Auditor's recommendations addressed by House - some steps in the right direction

State of Iowa  
General Fund  
FY2006 Revenue Transfers and Expenditure Shifts Comparison  
(\$ in Millions)

	<u>House Republicans</u>	<u>Governor</u>
Revenue transfers:		
Tobacco Related Funds	\$ 0.0	35.0
Reserve Funds - interest	<u>0.0</u>	<u>6.0</u>
	<u>0.0</u>	<u>41.0</u>
Expenditure shifts:		
Cash Reserve Fund	147.2	94.1 <sup>(1)</sup>
Senior Living Trust Fund	136.0	136.0
Tobacco Related Funds	67.1	67.1
Hospital Trust Fund	22.9	22.9
Environment First Fund	7.5	7.5
Iowa Values Bridge Financing Fund	<u>0.0</u>	<u>.5</u>
	<u>380.7</u>	<u>328.1</u>
	<u>\$380.7</u>	<u>369.1</u>

(1) FY2005 appropriation for FY2006 - same impact as appropriation from Cash Reserve Fund

State of Iowa  
General Fund  
True Total Expenditures Comparison  
(\$ in Millions)

	<u>House Republicans</u>		<u>Governor</u>	
Expenditures per budget	<u>\$4,827.8</u>		<u>4,971.3</u>	
Repayment to SLTF (1)	(55.6)		0.0	
Expenditures shifted	380.7		328.1	
LSA (2) estimated additional costs:				
Salaries and benefits	44.0		77.0	
Medicaid supplement	<u>23.0</u>		<u>23.0</u>	
	<u>392.1</u>	<u>8.1%</u>	<u>428.1</u>	<u>8.6%</u>
"True Total Expenditures"	<u>\$5,219.9</u>		<u>5,399.4</u>	

- (1) Senior Living Trust Fund  
(2) Legislative Services Agency

State of Iowa  
General Fund  
Spending Growth from FY2005 to FY2006 Comparison  
(\$ in Millions)

		<u>Percentage Increase</u>
FY2005 "True Total Expenditures"	<u>\$4,968.9</u>	
Governor's FY2006	<u>\$5,399.4</u>	<u>8.7%</u>
House Republicans' FY2006	<u>\$5,219.9</u>	<u>5.1%</u>

State of Iowa  
General Fund  
Spending Gap - Expenditures Exceed Revenues Comparison  
(\$ in Millions)

	<u>House Republicans</u>	<u>Governor</u>
REC (1) revenue estimate	\$4,903.0	\$4,903.0
Cigarette & tobacco tax increase	0.0	129.9
Combined corporate reporting	0.0	25.0
Other	<u>7.6</u>	<u>4.7</u>
Total revenues available	4,910.6	5,062.6
"True Total Expenditures"	<u>5,219.9</u>	<u>5,399.4</u>
Gap - spending in excess of revenues	<u>\$ (309.3)</u>	<u>\$ (336.8)</u>

(1) Revenue Estimating Conference



## State of Iowa General Fund House Republicans' Proposal - Some Unsound Financial Practices Continued

- ◆ Lack of clarity
  - "True Total Expenditures" - 8.1% higher than budget presented spending (Governor's 8.6% higher)
- ◆ Spending exceeds revenues
  - \$309 million spending gap - spending exceeds revenues (Governor's gap \$337 million)
  - Revenue transfers from and expenditure shifts to other funds - \$147 million Cash Reserve Fund and \$380 million in total (Governor's - \$94 million Cash Reserve Fund and \$369 million in total)
  - \$49 million FY06 required appropriation - uses "notwithstanding" language to defer (same as Governor)

# State of Iowa General Fund

## House Proposals - Some Steps in the Right Direction

- ◆ Limited FY 2005 supplemental appropriation
  - FY2005 surplus repays and helps rebuild Cash Reserve Fund
  - Controls spending base going into FY2006
- ◆ FY2006 appropriation to repay \$55.6 million to Senior Living Trust Fund (Governor proposed \$40 million repayment through FY2005 supplemental appropriation)
- ◆ Repayment plans proposed for amounts taken from other funds and special accounts:
  - House Republicans
  - "Swat Team" Bipartisan House File 519
- ◆ FY2007 budget targets considered